

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Alpert Analyst: Marion Mann DeJong Bill Number: SB 304
Related Bills: See Legislative History Telephone: 845-6979 Amended Date: 08/18/2000
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Teacher Retention Tax Credit

SUMMARY OF BILL

The bill would simplify the method of determining tax imposed on a teacher's salary for purposes of computing and applying the credit limitation contained in the credentialed teacher tax credit.

SUMMARY OF AMENDMENT

The August 18, 2000, amendments deleted the provisions of the bill relating to "elective combination" and replaced them with the provisions discussed in this analysis. As a result of the August 18, 2000, amendments, the department's prior analyses no longer apply.

EFFECTIVE DATE

This bill would become effective on January 1, 2001.

LEGISLATIVE HISTORY

AB 2879 (Stats. 2000, Ch. 75) enacted the credentialed teacher tax credit.

SPECIFIC FINDINGS

Existing federal and state laws provide various tax credits designed to provide tax relief for taxpayers that incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

Current state law allows a credit for credentialed teachers based upon the years of service as a credentialed teacher. The credit amount varies as follows:

<u>Years of Service</u>	<u>Credit</u>
At least 4 but less than 6 years	\$250
At least 6 but less than 11 years	\$500
At least 11 but less than 20 years	\$1,000
20 or more years	\$1,500

Board Position:

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<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Gerald H. Goldberg

9/20/00

The credit cannot exceed 50% of the amount of tax that would be imposed on a teacher's salary, excluding pensions or other deferred compensation, after application of the standard deduction or itemized deductions. The computation to determine tax imposed on a teacher's salary is complex and requires these taxpayers to determine their tax liability twice (once including the teaching salary and once excluding it). See Form A (attached) for an example of this computation.

This bill would simplify the method of determining the amount of tax imposed on a teacher's salary for purposes of computing the credit limitation. Rather than determining tax liability twice, these taxpayers would multiply their total tax (as defined) by a ratio, not to exceed 1.00, of a credentialed teacher's wages and salary (as defined) divided by their total adjusted gross income from all sources. See Form B (attached) for an example of this computation.

Policy Considerations

This bill would simplify the credit limitation, thereby reducing taxpayer confusion.

Implementation Considerations

Implementation of this bill would occur during the department's normal annual system update.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

This bill would not impact state tax revenues since the bill modifies only the method of determining the credit limitation. The revenue loss associated with the credentialed teachers tax credit was included in the department's analysis of AB 2879.

BOARD POSITION

Pending.

The Franchise Tax Board has not had an opportunity to take a position on this bill.

